

Independent Commission on Banking – Terms of Reference

Context

The recent crisis has shown the significant detrimental impact that failure in the financial sector can have on the real economy and public finances. The United Kingdom has a heavily concentrated banking sector. Individual financial institutions can be a source of systemic risk to financial stability because of their size, complexity, interconnectedness and provision of essential services and infrastructure; they may also raise barriers to competition.

Scope and objectives

The Independent Commission on Banking will consider the structure of the UK banking sector, and look at structural and non-structural measures to reform the banking system and promote competition. It will formulate policy recommendations with a view to:

- Reducing systemic risk in the banking sector, exploring the risk posed by banks of different size, scale and function;
- Mitigating moral hazard in the banking system;
- Reducing both the likelihood and impact of firm failure; and
- Promoting competition in both retail and investment banking with a view to ensuring that the needs of banks' customers and clients are efficiently served, and in particular considering the extent to which large banks gain competitive advantage from being perceived as too big to fail.

Remit to make recommendations

The Commission will make recommendations covering both:

- Structural measures to reform the banking system and promote stability and competition, including the complex issue of separating retail and investment banking functions; and
- Related non-structural measures to promote stability and competition in banking for the benefit of consumers and businesses.

In considering these measures the Commission will have regard to the legal and operational requirements of implementing the options under consideration, and the importance of generating practical recommendations. It will also take into account the findings of ongoing EU and international work, and inform the UK Government's approach to international discussions on the financial system.

The Commission will also have regard to the Government's wider goals of financial stability and creating an efficient, open, robust and diverse banking sector, with specific attention paid to the potential impact of its recommendations on:

- Financial stability;
- Lending to UK consumers and businesses and the pace of economic recovery;
- Consumer choice;

- The competitiveness of the UK financial and professional services sectors and the wider UK economy; and
- Risks to the fiscal position of the Government

Governance

The Commission will report to the **Cabinet Committee on Banking**, chaired by the Chancellor of the Exchequer, the Rt Hon George Osborne MP, with the Rt Hon Dr Vince Cable MP, Secretary of State for Business, Innovation and Skills as Deputy Chair.

Timetable

The Commission will produce a final report by the end of September 2011.